**TaxDev Tax Expenditure Workshop**

**Session 7: Tax Expenditures under CIT**

**You have been provided example CIT returns for 100 firms, for 10 years.** The benchmark CIT rate is 30%.

Certain firms make losses, and are able to carry forward their loss to the next year.

**Question 1)**

10 mining companies have an outright tax holiday (identified by mining income tax holiday = 1). What is revenue foregone, by year, of this provision?

*Hint: calculate taxable income after loss (column G) after deducting loss carry forward. Column E and H will autofill based on column G. Taxable income cannot be negative.*

**Question 2)**

Exporters (identified by exporter = 1) are granted a reduced tax rate of 15%, instead of the standard rate of 30%. What is the revenue foregone, by year, of this provision?

**Bonus Question 3)**

Under the benchmark system, firms are allowed to 'use' losses for 3 years under the benchmark system. After this, they are not allowable as a deduction against taxable income. However, exporters that benefit from the reduced rate are allowed to utilise losses for 5 years. This represents a tax expenditure. What is the value of revenue foregone due to this tax expenditure?

Note: any losses in 2012 are assumed to be generated in that year (i.e. they are not carried forward from 2011 or before).

*Hint: Identify exporters that have losses for 4 or more consecutive years, and calculate what would happen if they could not carry forward losses in year 4 and year 5.*

Discuss the interaction effect between the loss carry forward and the exporter reduced rate.